

ENERGY

3360 Energy Resources, Conservation, and Development Commission

The California Energy Commission (CEC) develops and implements California's energy policy. Specifically, the Commission (1) maintains historical energy data and forecasts future statewide energy needs; (2) sites and licenses thermal power plants; (3) promotes energy efficiency and energy conservation programs and regulations; (4) develops renewable energy resources and alternative energy technologies; and (5) plans for and directs state response to energy emergencies. The Commission's mission is to assess, advocate and act through public-private partnerships to improve energy systems that promote a strong economy and a healthy environment.

Expenditures				
(dollars in thousands)	2002-03	2003-04	\$ Change	% Change
General Fund	\$250	\$0	-\$250	-100.0
St. Energy Conservation Assis. Acct.	\$6,778	\$37,500	30,722	453.3
Less Ln Repay. to St. En. Cons. & Assis. Acct.	(\$3,820)	(\$4,703)	-883	0.0
Mot. Vehicle Acct, St. Trans. Fund	\$126	\$125	-1	-0.8
Diesel Emission Red. Fund	\$224	\$0	-224	-100.0
Pub. Int. Res., Dev. & Dem. Fund	\$116,166	\$66,982	-49,184	-42.3
Renew. Resource Trust Fund	\$108,613	\$183,456	74,843	68.9
Loc. Juris. Energy Assis. Acct.	\$4,203	\$1,328	-2,875	-68.4
Less Repay. to Loc. Juris. En. Assis. Acct	(\$796)	(\$913)	-117	0.0
Energy Resources Programs Acct.	\$47,797	\$46,388	-1,409	-2.9
Energy Tech. Res., Dev. & Dem. Acct	\$2,765	\$958	-1,807	-65.4
Less Loan Repay. To Energy Tech. Res., Dev. & Dem. Acct.	(\$232)	(\$75)	157	0.0
Loc. Gov. Geo. Res. Rev. Subacct, Geo. Res. Dev. Acct.	\$6,119	\$1,300	-4,819	-78.8
Petrol. Violation Escrow Acct.	\$440	\$434	-6	-1.4
Katz Schoolbus Fund	\$0	\$1,988	1,988	0.0
Federal Trust Fund	\$9,165	\$9,024	-141	-1.5
Reimbursements	\$12,519	\$6,245	-6,274	-50.1
Renewable Energy Loan Loss Reserve Fund	\$9,900	\$0	-9,900	-100.0
Total	\$320,217	\$350,037	\$29,820	9.3

Highlights

Significant increases in expenditures include the following:

- The budget increases the expenditure from the Renewable Resource Trust Fund by \$75 million, but the fund realizes no significant change in its revenue stream. This fund rewards new renewable resource projects, subsidizes old ones and finances research of other specified renewable energy projects.
- The CEC will issue a \$30 million revenue bond. The proceeds of the bond will be placed in the State Energy Conservation Assistance Account and loaned to local public entities for specified energy efficiency projects.
- The budget proposes a \$2 million increase in funding from the Katz Schoolbus Fund to finance phase 5 of the Katz Safe Schoolbus Clean Fuel Efficiency Demonstration Program, providing CEC with resources to replace approximately 20 pre-1977 school buses and administer the program through June 30, 2004.

Decreases from the following funds partially offset the increases described above:

- \$49 million from the Public Interest Research, Development and Demonstration Fund,
- \$10 million from the Renewable Energy Loan Loss Reserve Fund, and
- \$19 million from twelve other funds, including the General Fund

Issues

Fee Report. The Legislature required the CEC to submit a report by January 1, 2003 detailing alternative fee structures for both: (a) developers seeking approval for site power plants and (b) generators. The intent was to find a revenue stream to cover the ongoing compliance costs associated.

The report requirement was in response to the Governor's 2002 budget proposal to raise fees on power plants and a recommendation from the Legislative Analyst's Office (LAO) to raise fees on plants and generators. The subcommittee raised many concerns about implementation of the Governor's proposal and the LAO recommendation when the commission's budget was heard.

The Commission recommended that the current funding mechanism (charges to electricity ratepayers) remain intact to maintain the perception of the Commission's independence and objectivity. Nevertheless, it is acknowledged that imposing a fee on developers to reimburse the General Fund would avoid the perception problem and would balance the costs and benefits of the Siting and Compliance Program between developers and ratepayers.

Raising Fees? Last year, the Legislature authorized the commission to raise the Energy Resources Protection Account (ERPA) fee. The fee may be increased each November. Does the commission intend to raise the fee in November 2003?

8660 Public Utilities Commission

The California Public Utilities Commission (PUC) is responsible for the regulation of utilities and transportation industries to ensure the delivery of stable, safe, and economical services. The PUC traditionally has met this responsibility by enforcing safety regulations and/or controlling industry rates for service.

The budget proposes a reduction in the commission's budget from \$1.5 billion in the current year to \$1.3 billion in the budget year, reducing expenditures by \$217 million, almost 15 percent. The budget and accompanying material provides very little detail about what changes in the commission's budget justify such a large year-to-year reduction.

Highlights

No General Fund Cost. Just as in the current year, there is no General Fund appropriation proposed for 2003-04. In 2001-02, the Legislature appropriated \$150 million (General Fund) to the commission.

Universal Telephone Programs. The Administration appears to be proposing the following reductions in appropriations associated with the Universal Telephone Program.

High Cost Fund-B	-\$55.3 million
Universal Lifeline Telephone Service Trust Fund	- 45.7
California Teleconnect Fund	-120.1

Neither the budget nor the required Budget Change Proposal (BCP) provide any information about how the reduction was calculated or whether the program can sustain the reduction.

Rural Grants. AB 140 (Strom Martin) establishes a grant program to improve rural telephone infrastructure. The Administration proposes making the first grants of the program in the budget year, at a total cost of \$10.1 million.

Issues

Administration of the Universal Telephone Accounts Need Greater Scrutiny. Last year, the Legislature transferred over \$300 million from the High Cost fund, on the grounds that the accounts had unused surpluses. The Legislature assumed the funds could be transferred without hurting services or requiring an increase in the surcharges which supply the funds. During the Interim, it appeared that the commission intended to adjust fees within the universal telephone service program. It is not clear whether the changes were the result of the transfers. The commission may wish to explain the likely changes and whether the transfers affected the funds' ability to meet statutory program requirements.

In the budget, the Administration proposes reducing by \$130 million expenditures from certain lifeline accounts. Why is the change being made? Will it reduce services?

Rural Grant Program. Last year, the Legislature deferred approving the Rural Grant program until the commission developed a grant application and award criteria. It was not clear last year whether the Administration had a plan for allocating the funds to their highest and best use. The Legislature required the commission to submit a report, no later than January 15, 2003, on the likely benefits and costs of the

grants. As of February 9, the commission has not submitted the report. Before the Legislature authorizes the start-up of a \$10 million program, it should have the benefit of the commission's report.

ORA Report. The subcommittee relaxed certain requirements on the budget of the commission's Office of Ratepayer Advocate. In exchange for reduced reporting requirements, the subcommittee proposed and included in the trailer bills statutory language requiring the office to report its budget to the fiscal committees when the Governor released the budget. As of February 9, the commission failed to file the report on ORA's budget.

8665 Consumer Power and Conservation Financing Authority (CPA)

Senate Bill 6 (Burton), Chapter 10 of the 2001-02 First Extraordinary Session, established the authority. Under the bill, the authority may take actions, including issue revenue bonds, for the purposes of:

- Establishing and financing activities to supplement the state's power supplies and ensure sufficient electricity supplies at reasonable prices,
- Financing natural gas transportation and storage,
- Achieving adequate energy reserve capacity within five years,
- Financing replacement or retrofit of old and inefficient power plants, and
- Ensuring supply sufficiency.

Highlights

In 2002, the Legislature changed the funding source of the CPA from the General Fund to a special fund. The special fund source is a \$10 million loan, to be repaid when the CPA begins generating interest income from the projects it finances.

Issues

- ***Repaying the Start Up Loan in the Current Year.*** The CPA was to have repaid \$1 million of its loan on June 30, 2003. It will only be able to repay about half the loan. Through the deficiency process, the Legislature has authorized the authority to extend the loan for six months, making January 1, 2004 the new due date for the first loan payment. The Legislature may have to monitor more closely the authority's income and revenue streams.
- ***Energy Resources Investment Plan Is Due Soon.*** The CPA's authorizing statute requires it to submit an annual *Energy Resources Investment Plan* on February 15. The plan addresses issues of supply, reliability, and environmental quality. It outlines a strategy for cost-effective energy resource investments, including a financing plan. The subcommittee will want to consider the findings of the report and take testimony on the plan.
- ***Report on the Authority's Long Term Budgetary Needs.*** The subcommittee proposed, and the conference committee concurred in, a supplemental report requirement that the authority report on the needs of the authority. The report was to answer the question: How can the Legislature determine

whether the authority is properly funded? The report was due on December 31, 2002. Before considering the authority's budget, the subcommittee may want to review this report.

8770 Electricity Oversight Board

The Electricity Oversight Board (EOB) is part of the regulatory oversight structure that was established by the legislation restructuring California's electricity industry in 1996. The board is charged with ensuring the reliability of the electricity transmission system and in the power market.

The budget proposes total expenditures of \$3.7 million (\$0 General Fund), an increase of \$4,000 (0.1 percent) from the current-year budget.

Summary of Expenditures (dollars in thousands)	2002-2003	2003-2004	\$ Change	% Change
General Fund	\$231	\$0	-\$231	-100.0
PUC Utilities Reimbursement Acct.	3,003	3,226	223	7.4
Energy Resources Protection Acct	471	483	12	2.5
Total	\$3,705	\$3,709	\$4	0.1

Issues

Funding Levels of the EOB. Last year, the Legislature spent considerable time examining the role of the EOB and justifications for its current funding level. The Legislature was critical of its budget near \$4 million (50% OE&E) despite losing both of the board's original purposes of overseeing the now-defunct Power Exchange and overseeing the Independent System Operator.

The Legislature requested a report addressing the board's role in the electricity regulatory field and specific schedules and workloads justifying the upkeep of its \$3.7 million budget. The report was recently transmitted to the Legislature detailing the Board's role and workload schedules.

The report concludes that the EOB's main role is as an advocate on behalf of the state to the Federal Energy Regulatory Commission (FERC). In the report, the EOB does concede that multiple agencies (the Public Utilities Commission and the Department of Water Resources) advocate on behalf of the state before FERC. Although, the EOB contends that they present different roles in advocating to FERC.

While the report is rich in detail of the dockets and legal efforts the EOB has before FERC, the report sidesteps the specific workload and equipment schedules saying:

“As a practical matter, it is extremely difficult to accurately attribute a specific resource allocation to each (FERC) docket... Many FERC cases proceed in alternating spurts and lulls. A matter may require several people to work feverishly for a few days to answer a motion or for a week to write a brief and then may sit for several months awaiting the next order from a judge.”

In light of this report, the EOB has confirmed they may have redundant activities with other departments in their advocacy before FERC, or at least could be functioning under another department. Also, the EOB has yet to produce a precise workload and equipment schedules for justification of their \$3.7 million

budget as requested by the Legislature last year. Until accurate assessments of definitive activities of the EOB and the subsequent workload are available, the Legislature will not be able to properly evaluate on this budget item